

Message Text

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ACTION EB-07

INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 COME-00 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 /090 W

----- 110797

R 130357Z AUG 76

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 8842

INFO AMEMBASSY TAIPEI

AMEMBASSY TOKYO

AMCONSUL HONG KONG

UNCLAS SEOUL 6266

HONG KONG FOR REGIONAL FINANCIAL ATTACHE

E.O. 11652: N/A

TAGS: EFIN, ETRD, KS

SUBJECT: INDICATORS OF KOREAN ECONOMY REMAIN BOUYANT

SUMMARY: IT WAS MORE OF THE SAME FOR THE KOREAN ECONOMY IN JULY AS PRELIMINARY DATA SHOW ANOTHER MONTH OF VIGOROUS EXPORTS, MOUNTING FX RESERVES, STRONG DOMESTIC FISCAL PERFORMANCE AND RELATIVE PRICE STABILITY. END SUMMARY.

1. PRELIMINARY JULY DATA ON THE KOREAN ECONOMY SHOW FURTHER ADVANCES FOR THE EXTERNAL SECTOR BALANCED WITH A STRONG DOMESTIC FISCAL PERFORMANCE. ON THE EXTERNAL SIDE, THE CASH FLOW OR KFX SURPLUS ON CURRENT ACCOUNT WAS A REMARKABLE \$211 MILLION, EQUALING THE \$211 MILLION SURPLUS ACHIEVED OVER THE FIRST SIX MONTHS OF THE YEAR. DOMESTICALLY, AN OVERALL FISCAL SURPLUS OF 44.5 BILLION WON CONTRIBUTED IMPORTANTLY TO HOLDING SEASONALLY ADJUSTED INCREASES IN MONEY SUPPLY AND DOMESTIC CREDIT TO 17.7 PERCENT AND 12.0 PERCENT RESPECTIVELY THROUGH JULY 31, VIRTUALLY UNCHANGED FROM THE END-JUNE FIGURES OF 17.8 PERCENT

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AND 11.6 PERCENT.

2. THE LARGE KFX SURPLUS REFLECTED VIGOROUS EXPORTS OF BOTH COMMODITIES AND SERVICES. THE KFX COMMODITY EXPORT TOTAL BROKE THROUGH THE \$700 MILLION BARRIER FOR THE FIRST TIME, HITTING A RECORD \$709 MILLION. KFX IMPORTS, MEANWHILE, SLIPPED TO \$545 MILLION, DOWN FROM THE ROUGHLY \$590 MILLION TOTALS REGISTERED IN EACH OF THE TWO PREVIOUS MONTHS. KFX DATA ON INVISIBLE TRADE RECORDED A SURPRISINGLY LARGE JULY SURPLUS OF \$53 MILLION, WHICH, BY COINCIDENCE, ALSO EXACTLY EQUALED THE \$53 MILLION SURPLUS FOR JAN-JUNE. WHILE THIS KFX ACCOUNTING ON INVISIBLES DIFFERS SIGNIFICANTLY FROM FULL BALANCE OF PAYMENTS ACCOUNTING FOR SERVICES (E.G. PAYMENTS EXCLUDE SUBSTANTIAL FREIGHT AND INSURANCE OUTLAYS AND RECEIPTS INCLUDE REMITTANCES THAT ARE LATER MOVED TO THE TRANSFERS ACCOUNT), THE FACT THIS ACCOUNT IS RUNNING A SURPLUS OF \$106 MILLION THROUGH JULY AS COMPARED TO A DEFICIT OF \$36 MILLION FOR THE SAME PERIOD ON 1975 IS AN ALMOST CERTAIN INDICATOR THAT 1976 INVISIBLES PERFORMANCE TO DATE ON A FULL BALANCE OF PAYMENTS BASIS IS AS GOOD OR BETTER THAN A YEAR AGO. RECENTLY REVISED BALANCE OF PAYMENTS DATA, MOREOVER, SHOW THE NET DEFICIT FOR SERVICES AND TRANSFERS IN FULL YEAR 1975 AS \$215 MILLION, OR FAR SMALLER THAN THE \$442 MILLION PRELIMINARY ESTIMATE USED AS A BASE FOR THE ORIGINAL PROJECTION OF A SERVICES AND TRANSFERS DEFICIT OF \$557 MILLION FOR 1976.

3. LOOKING AHEAD, LEADING INDICATORS ON FOREIGN TRADE CONTINUED THE JUNE PATTERN WITH EXPORT LETTER-OF-CREDIT ARRIVAL TOTALING \$677 MILLION AGAINST KFX IMPORT LICENSING OF \$614 MILLION. THESE INDICATORS POINT TO SOME FLATTENING OUT OF EXPORT GROWTH AND MODERATELY STRONGER IMPORT LEVELS IN THE MONTHS AHEAD, BUT REMAIN CONSISTENT WITH THE EMBASSY'S FULL YEAR FORECASTS OF \$7.5 BILLION FOR EXPORTS AND ROUGHLY \$8.0 BILLION FOR F.O.B. IMPORTS. IF ANYTHING, THE OVERALL JULY RESULTS SUGGEST EVEN THE EMBASSY'S ESTIMATES ON BALANCE OF PAYMENTS PERFORMANCE MAY PROVIDE CONSERVATIVE.

4. AS GROSS FOREIGN EXCHANGE RESERVES CONTINUED TO MOUNT DURING JULY, THE MINISTRY OF FINANCE DECIDED IT WAS A PROPITIOUS TIME TO REDEFINE GROSS FOREIGN EXCHANGE RESERVES (FX). THE NEW DEFINITION EXCLUDES FOREIGN EXCHANGE HOLDINGS OF FOREIGN BRANCH
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BANKS, BUT INCLUDES GOLD AND SDRS NOT PREVIOUSLY COUNTED. THE NET EFFECT WAS TO LOWER THE OFFICIAL JULY 31 FX TOTAL BY \$96 MILLION. EVEN WITH THIS ADJUSTMENT, OFFICIAL DATA SHOW FX RESERVES OF \$2,127 MILLION AS OF JULY 31, UP \$98 MILLION OVER THE \$2,035 MILLION REPORTED UNDER THE OLD DEFINITION AS OF JUNE 30.

5. JULY WAS ALSO ANOTHER GOOD MONTH ON THE PRICE FRONT. PRELIMINARY DATA SHOW WHOLESALE AND RETAIL PRICES EDGED UP 0.2 PERCENT AND 0.5 PERCENT RESPECTIVELY. INCREASES OVER A YEAR

EARLIER ARE NOW 9.4 PERCENT FOR THE WHOLESALE PRICE INDEX AND
12.3 PERCENT FOR THE CONSUMER PRICE INDEX, CORRESPONDING ALMOST
EXACTLY TO THE RESPECTIVE TARGETS OF 10 PERCENT AND 12 PERCENT
FOR 1976 AS A WHOLE.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TRADE, ECONOMIC REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 13 AUG 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976SEOUL06266
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760311-0812
From: SEOUL
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760855/aaaabvrq.tel
Line Count: 120
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 24 MAR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <24 MAR 2004 by ReddocGW>; APPROVED <21 JAN 2005 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: INDICATORS OF KOREAN ECONOMY REMAIN BOUYANT SUMMARY: IT WAS MORE OF THE SAME FOR THE KOREAN ECONOMY IN JULY AS PRELIMINARY DATA SHOW ANOTHER MONTH OF VIGOROUS
TAGS: EFIN, ETRD, ECON, KS
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006